

WORKING CAPITAL FUND

FY 2005 Second Quarter Report: Summary

I. Relation of Earnings to Expenses

Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies. Unless otherwise noted, all financial data are cumulative for the first half of FY 2005.

WORKING CAPITAL FUND			
FY 2005 Second Quarter Cumulative Business Results (in Millions)			
TABLE I			
<u>Business Line</u>	Second Quarter Earnings	Second Quarter Business Expenses	Second Quarter Net
Supplies	\$1.4	\$1.3	\$0.1
Mail	\$1.0	\$1.0	\$0.0
Copying	\$1.0	\$1.2	-\$0.2
Printing/Graphics	\$1.9	\$1.8	\$0.1
Building Occupancy	\$32.1	\$32.7	-\$0.6
Telephones	\$4.3	\$3.9	\$0.4
Desktop	\$0.5	\$0.5	\$0.0
Network	\$3.0	\$2.9	\$0.1
Procurement Services	\$0.5	\$0.5	\$0.0
Payroll Processing	\$1.1	\$1.2	-\$0.1
CHRIS	\$1.1	\$0.9	\$0.2
Corp Training Services	\$0.3	\$0.5	-\$0.2
PMCDP	\$0.6	\$0.6	\$0.0
TOTAL ¹	\$48.5	\$48.7	-\$0.2

The Fund earned a net of -\$0.2 million (-0.4%) on \$48.5 M in earnings in the Second Quarter of FY 2005. With few exceptions, the net earnings by business line are consistent with a longer-term breakeven position. For example, historical building profits that were due to unfinished projects are being offset as projects are completed, and Telephone capital accumulation is an offset to the equipment write-off that resulted in large losses in FY 2003. The Copy business continues to suffer from small

¹ When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

losses and the fund manager is watching that business closely. Corporate Training Services losses offset its profits from a year ago and the fund manager is watching this business closely also. Specific differences in excess of \$50,000 are as follows:

- Supply profits appear attributable to a double-billing of one or more customers that had used a purchase card at the store. We are looking into which customers may have been over-billed and expect to make adjustments within FY 2005.
- Copy Business Line reported net earnings of -\$222,518 through the Second Quarter due to reduced consumption at central copiers. Some of this shortfall may be attributable to programming errors in the billing system, while some is due to a long-term decline in the use of central copiers. The business is reducing the number of central copiers by eliminating copiers that have little utilization.
- The Printing and Graphics Business Line reported net earnings of \$57,501 through the Second Quarter due to savings in overhead accounts.
- The Building Occupancy Business Line had net earnings of -\$562,845 through the Second Quarter due to completing projects where revenue was earned in prior years.
- The Telephone Business Line had net earnings of \$396,022 through the Second Quarter due to a prior year cost adjustment (\$0.1 million) and negligible depreciation expense (\$0.3 million).
- The Network Business Line had net earnings of \$84,098 through the Second Quarter that result from DOEnet infrastructure cost reductions at the Headquarters node.
- Payroll processing had net earnings of -\$62,764 through the Second Quarter due to an increase over FY 2004 in the administrative costs for Flexible Savings Accounts. While the Board authorized charging FSA administrative costs immediately to programs, the Fund Manager has built a lag-time into billings to give as much advance information to customer organizations as possible. Therefore, no FSA costs were billed in FY 2004 and FY 2004 costs are being billed in FY 2005.
- CHRIS had net earnings of \$225,000 due to deferring capital equipment purchases within the year.
- Corporate Training had net earnings of -\$199,723 in the Second Quarter due to FY 2005 payment of bills from prior years that were not accrued when incurred.

Both earnings and expenses reported above have been adjusted from the DISCAS accounting to present the Fund's financial results with the most accurate and latest information. For the, Mail, Building Occupancy, CHRIS, Purchase card surveillance, Corporate Training Services, PMCDP, and Payroll business lines, actual customer billings in the Second quarter have been adjusted downward to reflect

annual collections that should be reported in 25% increments each quarter. Telephone results have been adjusted to offset the reverse billing for August/September usage billed in October/November. Due to STARS implementation, there were no accruals in DISCAS for the Second Quarter. For that reason, we have adjusted all of the expenses to simulate the effect of accruals. This net cost adjustment was \$16.6 million, which is equivalent to approximately 2 months of spending and is consistent with accrual levels at the end of the first quarter.

II. Relation of Customer Payments to Anticipated Customer Billings

Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund once appropriations are available. By March 2005 we had collected **\$92.1 million (92%)** of the estimated \$99.2 million in FY 2005 annual revenues (Table II). This is an increase in advances over the second quarter of FY 2004, and since the end of March, a number of organizations have made further advances. However, there remain shortfalls in some customer accounts offset by surpluses in others, and the Fund Manager is requesting all customers to fully fund their WCF requirements as soon as possible.

WORKING CAPITAL FUND			
FY 2005 Second Quarter Cumulative Business Results (in Thousands)			
TABLE II			
<u>Program Customer</u>	Annual Estimate	Customer Advances²	Difference
Secretary of Energy Advisory Board	\$ 214	\$ 258	\$ 45
Board of Contract Appeals	101	110	9
Bonneville Power Administration	246	N/A	N/A
Congressional & Intergovtl Affairs	716	589	-127
Counterintelligence	1,112	1,247	135
DOE Representative to the DNFSB	115	113	-2
Economic Impact and Diversity	644	634	-10
Energy Efficiency	6,261	6,292	31
Environment, Safety, and Health	4,390	4,229	-161
Energy Information Administration	7,380	8,415	615
Environmental Management	6,885	4,669	-2,216
Fossil Energy	3,772	3,407	-365
General Counsel	3,010	2,965	-45
Hearings and Appeals	706	702	-4

² Customer advances include prior year customer advances. (see Table III).

WORKING CAPITAL FUND			
FY 2005 Second Quarter Cumulative Business Results (in Thousands)			
TABLE II (continued)			
<u>Program Customer</u>	Annual Estimate	Customer Advances	Difference
Inspector General	1,585	1,587	2
Chief Information Officer	4,860	4,755	-105
Intelligence	4,751	5,211	459
Legacy Management	544	578	34
Management Budget and Evaluation	14,786	11,255	-3,531
NNSA	17,567	17,057	-510
Nuclear Energy	2,425	2,248	-177
Naval Reactors	377	648	271
Oversight & Performance Assurance	809	816	8
Public Affairs	810	690	-120
Policy and International Affairs	1,635	1,000	-635
CRWM	1,544	1,660	116
Office of the Secretary	1,002	1,053	51
Science	4,544	4,877	333
Security	4,672	4,172	-500
Electric Transmission & Distribution	736	860	124
WAPA/SWPA/SEPA	975	N/A	N/A
Field Offices	21	N/A	N/A
Total, Working Capital Fund	\$ 99,196	\$ 92,097	\$ (7,099)

The difference between Total Available for Obligation (Table III) and Customer Advances (Table II) are collections from field organizations that do not advance fund operations (\$1 million) and net equity held in business line accounts (\$3.5 million).

III. Relation of Payments to Obligations by Business Line

- There have been no violations of administrative control of funds procedures by WCF business lines.
- As shown in Table III, funds available exceeded obligations by an estimated \$44.5 million by the end of the Second Quarter.

WORKING CAPITAL FUND					
FY 2005 Second Quarter Business Results (in Millions)					
TABLE III					
<u>Business Line</u>	Unobligated Balance ³ 10/05	Current Year Customer Advances	Total available for Obligation	Second Quarter Obligations	Advances Remaining to be Obligated
Supplies	\$ 1.6	\$ 1.9	\$ 3.5	\$ 0.0	\$ 3.5
Mail	1.3	2.0	3.3	1.6	1.7
Copying	0.5	1.3	1.8	1.3	0.5
Printing/Graphics	0.7	2.7	3.4	2.1	1.3
Building Occupancy	7.2	50.8	58.0	39.7	18.3
Telephones	2.9	5.8	8.7	3.5	5.2
Desktop	0.2	0.7	0.9	0.4	0.5
Network	1.0	4.5	5.5	0.7	4.8
Procurement Services	0.4	0.9	1.3	0.0	1.3
Payroll Processing	2.2	2.6	4.8	0.7	4.1
CHRIS	0.0	3.0	3.0	1.5	1.5
Corp Training Services	0.5	0.1	0.4	0.0	0.4
PMCDP	1.2	0.7	1.9	0.5	1.4
TOTAL	\$ 19.7	\$ 76.9	\$ 96.6	\$ 52.1	\$ 44.5

³ The unobligated balances are made up of earned and unearned customer advances from the prior fiscal year. These funds often act as working capital during the early weeks of a new fiscal year.

IV. Changes in Budget Estimates by Business Line and Customer

The \$2.6 million increase in the March 2005 estimate for FY 2005 was the result of \$2.4 million in building alterations ordered during FY 2005. Building alterations cannot be predicted in the budget and therefore result in an increase in spending during budget execution. Otherwise the FY 2005 billing estimates are reasonably aligned with prior estimates.

FY 2005 Budget Estimates for WCF Businesses		
Date	Process	FY 2005 Billing Estimate (\$Millions)
May 2003	FY 2005 Corporate Review	\$94.9
December 2003	FY 2005 Congressional Budget	\$97.2
May 2004	FY 2006 Corporate Review	\$97.2
December 2004	FY 2006 Congressional Budget	\$96.6
March 2005	March Bill	\$99.2

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

Based on the Second quarter reviews with the businesses the Fund Manager foresees no immediate need to change pricing policies in any businesses. However, businesses are reviewing future funding needs, and the Board has formed working groups to analyze potential investment requirements in Network as well as pricing policies for PMCDP and Corporate Training Services.

VI. Financial Management Systems Progress Working Capital Fund Billing System

- The WCF billing system continued to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to DISCAS by the second working day of the month (a decrease of two working days). This allows the Fund staff, with the cooperation of CFO officials, to have the billings entered into DISCAS each month before the accounts are closed. A minus two (-2) indicates that billing was forwarded two days before the deadline. This standard provides customers with costs reported in DISCAS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent.
- The Fund Manager recently completed upgrading the billing system to automate and enhance customer reporting. It is our assessment that the system is stable and has the flexibility to accept changes as needed. We intend to solicit ideas from our customer and business working groups for the next generation of enhancements. The complete assessment can be located on our web site at www.wcf.doe.gov under Billing System Assessment.
- The Fund Manager has been working with the I-MANAGE staff on successful tests of the ability to transmit customer billing information electronically to the STARS system. This office is currently reviewing the reports that are available to customers in STARS/IDW. We will create new STARS/IDW reports, where necessary, to provide our program customers and business managers the kinds of information you rely on to manage your business and control costs.